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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

NOV 24 1969

Dear Mr. Kelly

This report is the first of a series relating to our evaluations of selected aspects of the automated central payroll system, Department of Health, Education, and Welfare (HEW). The subject of this report is the Error Analysis and Reporting System. The former Deputy Assistant Secretary, Finance, requested us to advise him in writing of our findings with respect to the redesigned payroll system, and he suggested that our initial examination cover the Error Analysis and Reporting System.

The purpose of the Error Analysis and Reporting System is to identify and bring to the attention of top management conditions which need improvement. Errors are recorded on a document called an Error Notice (HEW-411A). The error notices are summarized and reported as error statistics to Department officials and to the Congress.

During our review, we examined into the procedures used in processing error notices with a view toward ascertaining whether the Error Analysis and Reporting System resulted in accurately disclosing problems occurring in the payroll system. We found that the reported error statistics had not included all of the errors that had occurred. In addition, we noted certain other matters relating to the accuracy of the system which may not have been appropriate for reporting as errors but which we believe should have been reported to management.

ERROR STATISTICS DO NOT INCLUDE ALL ERRORS

Under the system in effect at the time of our review, two groups were involved in making adjustments to employees' payroll records. The Supplemental and Canceled Check Unit received all erroneous checks that were returned; the HEW 411 Control Unit received all error notices not accompanied by a returned check.

We found that, when an erroneous check had been returned to the Supplemental and Canceled Check Unit, the error had not been counted in developing the error statistics. Our review revealed that about 1,600 erroneous checks had been returned to that unit during the 5-month period, January through May 1969. We found also

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that the HEW 411 Control Unit had not included errors involving commissioned officers' pay in reported error statistics. Such errors averaged about 60 a month during a test period in 1969. We discussed these matters with officials of the two groups, who offered no explanation for excluding the errors from the reported error statistics.

Inasmuch as the purpose of the Error Analysis and Reporting System is to keep top management informed regarding matters requiring their attention, we believe that all errors should have been included in the error statistics.

OTHER MATTERS AFFECTING THE
ACCURACY OF PAYROLL OPERATIONS

During our review, we noted two other matters relating to the accuracy of the system which, in our opinion, should have been reported to top management officials to enable them to initiate corrective actions. These matters are discussed below.

Need for improved computer programs

Under the system currently in use, one computer run is made for employees who work a standard 80-hour pay period and another is made for those who work more or less than 80 hours a pay period. During a recent pay period, the records of 3,800 employees who had worked more or less than 80 hours were included in the computer run applicable to employees who had worked 80 hours. As a result, the computer processed the reports for these 3,800 employees as though they had worked 80 hours. Although a transaction tape containing 3,800 errors was prepared, the situation was discovered before a check tape was sent to the Treasury, and the errors were not included in the error statistics prepared by the Division of Central Payroll.

Although it may not have been appropriate to have included the 3,800 errors in the error statistics, we believe that management should have been advised of them. In this respect, the error, on the surface, could be classified as a clerical error, that is, the clerks failed to separate the records, prior to keypunching, for employees working nonregular hours from those working regular hours. We believe, however, that the problem was more than just a clerical error because management action is needed to provide assurance that such errors will not recur.

In our view, a proper computer program would result in the rejection of inappropriate transactions. Accordingly, we believe

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that the computer should be programmed so that when a run is made of pay for persons working a standard 80-hour pay period, non-standard transactions will be rejected. In our opinion, errors similar to those involved in the processing of the 3,800 pay records should be reported to top management, even though the errors are not included in error statistics. Otherwise, management will not be in a position to initiate needed corrective actions.

Need for stronger controls
over personnel offices

During the pay period cited above, we found that the issuance of 800 checks had been delayed because necessary documents had not been timely received from personnel offices. In this instance, the Division of Central Payroll processed 800 supplemental checks so that the affected employees would be paid correctly, even though late. None of these checks were counted or reported as errors. Again, although it may not have been appropriate to include these late checks in the error statistics, we believe that the matter should have been reported internally so as to alert management to the possible need for initiating action to avoid similar delays in the future.

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Upon request, we would be pleased to discuss the matters cited in this report with you. We would appreciate receiving your comments on these matters along with advice of any actions taken or proposed to be taken by the Department to improve the Error Analysis and Reporting System.

A copy of this report is being sent to the Director of the HEW Audit Agency for information purposes.

Sincerely yours,


Philip Charam
Associate Director

The Honorable James F. Kelly
Assistant Secretary, Comptroller
Department of Health, Education,
and Welfare

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